ANNUAL REPORT

MARCH 24

1968

THE HAMILTON COTTON COMPANY, LIMITED

The Hamilton Cotton Company, Limited

AND SUBSIDIARY COMPANIES

Head Office: 304 MARY STREET, HAMILTON, ONTARIO

Plants at:

Hamilton, Ontario - Trenton, Ontario - Dundas, Ontario - Ajax, Ontario
Marysville, New Brunswick

Sales Offices at:

Montreal - Toronto - Hamilton - Winnipeg - Vancouver

Directors

Alan V. Young
William H. Young
Dunlop Stewart
E. G. Howe
James M. Young
David M. Young
R. N. Steiner
L. S. Magor

Officers

Alan V. Young
Chairman of the Board

William H. Young
President and General Manager

D. M. Young
Vice-President

G. B. Lawrence
Executive Vice-President — Textiles

J. M. Young
Vice-President

G. H. Pullam
Vice-President and General Sales Manager

E. G. Howe
Vice-President — Finance and Secretary-Treasurer

AUDITORS

Peat, Marwick, Mitchell & Co.

REGISTRAR, TRANSFER AGENT AND TRUSTEE FOR BONDHOLDERS

Canada Permanent Trust Company
Toronto, Ontario

BANKERS

Canadian Imperial Bank of Commerce

Annual Report of Directors

To the Shareholders:

Your directors submit herewith the fortieth annual report of your Company including the consolidated balance sheet as of 24th March, 1968, and the statements of profit and loss and surplus for the year ended on that date.

FINANCIAL

Consolidated net profit for the fiscal year ended 24 March, 1968, was $291,354 including a net tax credit of $129,333 and after depreciation of $483,522.

Working capital was $3,261,070 at the year end, an improvement of $815,685 over the previous year.

In May, 1967, as reported last year, an issue of $1,000,000 of $100.00 par value Hamilton Cotton 6% cumulative redeemable convertible preferred shares was sold privately. Of the proceeds from this sale, $400,000 was used to reduce outstanding notes and the remainder was added to working capital.

Your Company's holding of £200,000 Hamilton Leasing Limited 6% preferred shares was sold at par in February, 1968. Payment for £100,000, amounting to approximately $260,000, was received at the time of completion of the sale. Settlement for the remaining £100,000 is due on March 1, 1969 and is shown as a receivable on the balance sheet.

The deferred credit arising from a profit on the sale of fixed assets made in 1964, which amounted to $378,089 at the year end, was credited to earned surplus. An appropriation from the reserve for contingencies of $400,000 was also made to write down the book value of fixed assets located in West Germany to $152,680. The $150,000 remaining in this reserve was then transferred to earned surplus.

Dividends of $16,455 on the Series A preferred shares, $60,000 on the Series B preferred shares and $96,000 amounting to $1.20 on the common shares, were paid during the year. For the first quarter of the present fiscal year your directors decided to reduce the quarterly dividend payable on the common shares to 20¢ per share from 30¢ in order to conserve working capital in the face of uncertain textile earnings.

TEXTILES

Textile sales were lower for the year, and your Company's textile plants operated substantially below capacity for the first time in over five years. Lower production, depressed prices and increased costs, particularly of raw materials, combined to severely reduce textile earnings.

Independent investigation has shown that those Canadian plants which are the most modern that today's technology can build cannot produce and sell profitably at the prices at which many primary textile products used in volume are now offered in Canada from state-trading and low-wage countries. If employment in the Canadian industry is to be maintained or to grow, reasonable limitations on the growth of such imports must be established, similar to those of other developed nations. Otherwise, it would seem that this industry, now one of the largest employers of manufacturing labour in Canada, could shrink to those relatively few

special situations where factors other than low cost make profitable operations possible.

~~A decision to cease textile~~ manufacturing at the plant in Dundas, Ontario ~~was being implemented~~ at the year end. ceased

Capital expenditures were the minimum necessary to keep plants in operating condition.

Union contracts governing employment in the Hamilton and Trenton plants are now being negotiated.

THE P. B. YATES MACHINE COMPANY LIMITED

Arrangements were completed, effective 1st November, 1967, for the Stetson-Ross Machine Company Limited of Vancouver, a subsidiary of Stetson-Ross Machine Company Incorporated of Seattle, Washington, to acquire the manufacturing rights to the machinery product line of The P. B. Yates Machine Company Limited. While P. B. Yates has ceased the manufacture of machinery, it will continue to act as distributor in eastern Canada for the expanded Stetson-Ross product line.

The allowance against the value of the machine division inventory of P. B. Yates was increased by $231,500. The value of this inventory, after deducting the total allowance, now stands at $714,836. Stetson-Ross, as part of its arrangement with P. B. Yates, undertakes to use or sell P. B. Yates inventory before products of its own manufacture. It is hoped that this arrangement will permit the P. B. Yates inventory to be disposed of over a period of time without further loss.

The land, building and machine tools of the machine division of P. B. Yates were sold during the year.

NORTH AMERICA BUSINESS EQUIPMENT LIMITED — (NABEL)

NABEL continues to grow profitably and reported a net profit of $140,237 on a fully taxed basis for its fiscal year ended 30 June, 1967. In 1968, NABEL changed its fiscal year end, and for its ten-month fiscal year ended 30 April, 1968, its net profit after taxes was $159,107. In addition, NABEL had a profit of $150,209 resulting from the sale of its holding of 12½% of the outstanding common shares of Hamilton Leasing Limited.

Your Company owns 86,000 shares of the 190,000 common shares outstanding of NABEL at a book cost of $308,218, together with 10,000 of NABEL's 20,000 outstanding 6% cumulative redeemable convertible preferred shares of $50 par value. In addition, $550,000 has been advanced to NABEL on a secured note.

HAMILTON LEASING LIMITED

For its fiscal year ended 30 May, 1968, audited figures for Hamilton Leasing show a profit of £206,000, of which approximately £157,000 is available for the common shareholders after payment of preference dividends. Hamilton Leasing capitalized £120,000 of its surplus and distributed the resulting shares. The value of the shares received by your Company, amounting to approximately $109,000, was taken into the Company's profit for the year.

As reported above, your Company sold its holdings of £200,000 par value of preferred shares of Hamilton Leasing for approximately $520,000. The book value of your Company's investment in Hamilton Leasing of 35% of the outstanding common shares totals $414,292.

MASCHINEN MIETE GMBH

This leasing company, operating in West Germany, had another year of profitable growth. As reported last year, your Company reduced its holdings in Maschinen Miete to 29% of the common shares at a book cost of $64,247 which is below their par value at current rates of exchange. Shares of Maschinen Miete have recently sold in Germany at four times their par value. Maschinen Miete paid an initial dividend of 10% on the par value of its shares during the year.

OTHER INVESTMENTS

The leasing companies in France, Spain and Benelux countries, in which your Company has an interest, all showed profits for their most recent fiscal years. While none has reached the profit level of the other leasing companies reported on above, all are now well established and a future of profitable growth seems assured.

HAMILTON COTTON GMBH, a wholly-owned subsidiary operating a number of coin laundry and dry cleaning shops in West Germany, was at an approximate break-even level for its most recent fiscal year after meeting its financial obligations to the parent company.

TECHNAMATION (EUROPE) S.A., a wholly-owned subsidiary, showed a small loss for the year. It is in process of moving from Belgium to Germany where its products have found a ready market.

FUTURE

Textile operations have remained below capacity in the first half of the present fiscal year. There are indications of an improvement in demand for the second half of the year which should help to restore these to a profitable level. In the longer term, your Company will concentrate available textile resources on those special products of its manufacture where the impact of import competition has yet to be as severe as in the staple lines sold in volume.

The leasing companies in which your Company has invested continue to grow at an accelerating pace. Only the value of dividends actually received in cash or in shares from these sources is included in your Company's profit for the year.

There is an expanding market in all countries for the services offered by these leasing companies, and the only apparent limit on their rate of growth is the need to finance themselves on a sound basis. This may preclude any major increase in dividends paid in the near future. However, this policy will result in a continuing increase in the equity underlying the leasing company shares held by your Company, which is not reflected in its balance sheet.

DIRECTORS

Mr. Dunlop Stewart, who has been a director of The Hamilton Cotton Company Limited since it first became a public company in 1928, has decided not to let his name stand for re-election to the Board. His wise counsel throughout the past 40 years will be missed in the future, and your directors would like to record their appreciation of his long and valuable service.

Your directors wish to express their continued and sincere appreciation for the co-operation of all members of the staff.

By order of the Board of Directors.

W. H. YOUNG,
President.

The Hamilton Cotton Company, Limited A

MARCH 24, 1968 WITH CON

Assets

	1968	1967
Current assets:		
Cash	$ 35,626	41,218
Notes and accounts receivable, trade	1,738,951	2,293,827
Other accounts receivable	342,336	80,208
Other notes receivable	810,500	575,879
Inventories (note 2)	6,450,226	6,339,457
Deposits and prepayments	133,559	132,234
Total current assets	9,511,198	9,462,823
Mortgages and accounts receivable	84,867	38,056
Special refundable tax	12,685	10,525
Investments and advances (note 3):		
Subsidiary companies, not consolidated	23,662	69,869
Other	2,077,642	2,126,631
Fixed assets less accumulated depreciation (note 4):		
Buildings, machinery and equipment	11,428,147	12,615,723
Less accumulated depreciation	8,182,294	8,522,444
	3,245,853	4,093,279
Land	174,542	199,554
Net fixed assets	3,420,395	4,292,833
Deferred development and other charges, at cost, less amounts written off	—	114,932
Excess of cost of investment in consolidated subsidiaries over the equity therein at dates of acquisition (note 1)	—	12,286
	$15,130,449	16,127,955

Approved on behalf of the Board:

ALAN V. YOUNG, *Director*
W. H. YOUNG, *Director*

See accompanying notes to c
Subject to the accompanying report of Peat, Marwick, Mitche

AUDITORS' REPORT

We have examined the consolidated balance sheet of The Hamilton Co
consolidated statements of profit and loss, earned surplus, reserve for contingen
examination included a general review of the accounting procedures and such
necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly th
results of their operations and the source and application of their funds for the
except for the matters referred to in notes 4 and 7, have been applied on a ba

Hamilton, Ontario
September 5, 1968

UBSIDIARY COMPANIES **Consolidated Balance Sheet**
RATIVE FIGURES FOR 1967

Liabilities and Shareholders' Equity

	1968	1967
Current liabilities:		
Due to banks, secured by assignment of book debts and inventories	$ 3,940,432	4,387,798
Notes and accounts payable and accrued expenses ($116,109 secured by equipment and $1,196,515 secured by raw cotton)	2,162,639	2,543,291
Deposits on contracts	—	8,998
Income taxes payable	97	2,926
Other taxes payable	73,071	64,936
Dividends payable	19,114	4,114
Due to a subsidiary, not consolidated	54,775	5,375
Total current liabilities	6,250,128	7,017,438
Accounts and notes not due within one year	50,890	508,654
Conditional sales contract secured by new machinery acquisitions	165,497	374,272
Funded debt (note 5)	1,900,000	2,050,000
Deferred credits:		
Income taxes (note 6)	—	137,500
From sale of fixed assets (note 7)	—	457,362
Finance charges	—	15,940
Shareholders' equity:		
Capital stock (note 8):		
Preferred shares:		
Series "A"	329,100	329,100
Series "B"	1,000,000	—
Common shares	1,200,000	1,200,000
	2,529,100	1,529,100
Contributed surplus unchanged during the year	166,005	166,005
Reserve for contingencies	—	550,000
Earned surplus (note 9)	4,068,829	3,321,684
Total shareholders' equity	6,763,934	5,566,789
Contingent liabilities and commitments (note 11)		
	$15,130,449	16,127,955

dated financial statements.
Co., Chartered Accountants, dated September 5, 1968.

HE SHAREHOLDERS

Company, Limited and Subsidiary Companies as of March 24, 1968 and the
nd source and application of funds for the year ended on that date. Our
of the accounting records and other supporting evidence as we considered

ancial position of the company and subsidiaries at March 24, 1968 and the
then ended, in accordance with generally accepted accounting principles which,
nsistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Consolidated Statement of Profit and Loss

Year Ended March 24, 1968
With Comparative Figures For 1967

	1968	1967
Net sales	$15,128,199	19,046,341
Profit from operations before the undernoted items and after providing depreciation $483,522 (1967 $591,059) and remuneration of senior officers and directors $208,438 (1967 $147,249) of which $126,366 (1967 $124,711) applies to directors	$ 308,145	1,196,436
Increase in equity of:		
Associated company	85,724	72,508
Subsidiary company not consolidated	321	3,250
Other investments	109,410	2,609
Dividends	83,956	43,239
Other investment income	61,991	58,234
Gain on sale of investment	1,836	73,320
Gain on sales of fixed assets	28,556	—
	679,939	1,449,596
Deduct:		
Loss on sales of fixed assets	—	96,659
Non-recurring costs on termination of subsidiary manufacturing operations	12,652	138,065
Loss on sale of investment in a former subsidiary	—	1,685
Interest on funded debt	117,000	126,148
Other interest	388,266	332,620
	517,918	695,177
Profit before income taxes	162,021	754,419
Income taxes (note 6):		
Deferred recovered	(137,500)	—
Current	8,167	8,433
	(129,333)	8,433
Net income	$ 291,354	745,986

See accompanying notes to consolidated financial statements.

Subject to the accompanying report of Peat, Marwick, Mitchell & Co., Chartered Accountants, dated September 5, 1968.

Consolidated Statement of Earned Surplus

YEAR ENDED MARCH 24, 1968
WITH COMPARATIVE FIGURES FOR 1967

	1968	1967
Amount at beginning of year	$ 3,321,684	2,798,245
Add:		
Net income	291,354	745,986
Adjustment of prior years' income taxes	—	35,408
Increase in equity of associated company	120,998	—
Transfer from reserve for contingencies	150,000	—
Transfer of deferred income arising from sale of fixed assets (note 7)	378,089	—
	4,262,125	3,579,639
Deduct:		
Dividends:		
Preferred shares, Series "A"	16,455	16,455
Preferred shares, Series "B"	60,000	—
Common shares	96,000	96,000
	172,455	112,455
Deferred charges written off	8,555	—
Excess of cost of investment in consolidated subsidiaries written off (note 1)	12,286	—
Transfer to deferred income taxes	—	45,500
Transfer to reserve for contingencies	—	100,000
	193,296	257,955
Amount at end of year	$ 4,068,829	3,321,684

Consolidated Statement of Reserve for Contingencies

YEAR ENDED MARCH 24, 1968
WITH COMPARATIVE FIGURES FOR 1967

	1968	1967
Amount at beginning of year	$ 550,000	450,000
Add transfer from earned surplus	—	100,000
	550,000	550,000
Deduct:		
Adjustment on revaluation of equipment located in West Germany (note 4)	400,000	—
Transfer to earned surplus	150,000	—
	550,000	—
Balance at end of year	$ —	550,000

See accompanying notes to consolidated financial statements.
Subject to the accompanying report of Peat, Marwick, Mitchell & Co., Chartered Accountants, dated September 5, 1968.

Notes to Consolidated Financial Statements

March 24, 1968

1. The accounts of one domestic subsidiary and the three foreign subsidiaries have been excluded from the consolidated financial statements as two of the companies were not operating and the remaining companies carried on a different type of business. The excess of cost of investment in consolidated subsidiaries over the equity therein at dates of acquisition, $12,286, has been written off to consolidated earned surplus.

2. Inventories include:

	1968	1967
Cotton divisions	$ 5,735,390	5,292,299
Machine divisions	714,836	1,047,158
	$ 6,450,226	6,339,457

Inventories are valued at the lower of cost or replacement cost for raw materials and work-in-process and at the lower of cost or net realizable value for finished goods.

3. Investments and advances comprise:

	1968	1967
Subsidiary companies not consolidated:		
Investment in shares	$ 14,909	14,293
Advances	8,753	55,576
	$ 23,662	69,869
Other companies:		
Investment in shares:		
Associated company	$ 450,627	243,905
Other	1,624,307	1,882,726
Advances	2,708	—
	$ 2,077,642	2,126,631

The investment in shares of three of the subsidiaries not consolidated is stated at the net underlying asset value $14,908 an increase of $616. The investment in the remaining subsidiary not consolidated is stated at a nominal value of $1, unchanged during the year. The investment in shares of the associated company acquired at a cost of $28,392 is stated at the net underlying asset value of $450,627 an increase of $206,722 during the year. The shares of one company included in other investment in shares are stated at $414,292 which is cost plus their share of capitalized surplus. The remaining shares are stated at cost as to $1,210,014 and at nominal value of $1. Based upon the latest available financial statements, the company's equity in these investments exceeds the carrying value.

4. Buildings, machinery and equipment as to $11,275,467 are stated at depreciated replacement cost as appraised by Lockwood, Green & Co., Inc. under date of April 5, 1928 with subsequent additions at cost. Equipment located in West Germany has been valued by the Directors at $152,680 as of March 24, 1968. The reduction in value of $400,000 has been charged to reserve for contingencies.
Land is stated at market value as appraised by Mr. F. Kent Hamilton under date of April 5, 1928 with subsequent additions at cost.

5. Funded debt consists of:

	1968	1967
6% First Mortgage sinking fund bonds due April 1, 1972 of which $125,000 are required to be retired by way of sinking fund by April 1 in each year to 1971	$ 1,000,000	1,125,000
6¼% Sinking Fund debentures Series A due August 1, 1983 of which $25,000 are required to be retired by way of sinking fund by August 1 in each year to 1982	900,000	925,000
	$ 1,900,000	2,050,000

The bonds and debentures may be retired for other than sinking fund purposes, at the company's option, at premiums varying according to date of redemption.

6. The accumulated excess of depreciation and other charges recorded in the accounts over the accumulated capital cost allowances claimed for tax purposes eliminates the deferred tax credit applicable to future years of $137,500 which amount has been credited to consolidated income. Future income taxes payable will be reduced by approximately $67,000 when capital cost allowances will be claimed in excess of depreciation recorded. Because of substantial non-taxable items included in income and the amount of capital cost allowance claimed, the taxable incomes of the company and one consolidated subsidiary have been determined at $35,000 in the aggregate, to take advantage of the low rate of federal tax. The taxable incomes of the remaining consolidated subsidiaries have been offset by the application of losses of prior years. Losses of one subsidiary of approximately $324,000 are still available for application against future profits of which $40,000 expires in 1970 and the balance in 1972.

7. The balance of the deferred credit arising from sale and lease-back of fixed assets, $378,089 at March 24, 1968, has been credited to earned surplus. In prior years this profit, although realized, was being credited to income in equal amounts over the initial terms of the leases.

   The aggregate rentals paid in the current year for the use of land, buildings and equipment amounted to $390,447. The minimum annual rentals to be paid in the fiscal years ending in March 1969 and 1970 amount to $372,868 and $364,673 respectively reducing thereafter in varying amounts to $73,000 payable in 1989.

8. By supplementary letters patent dated May 11, 1967 the authorized capital was reduced by the cancellation of 400 preferred shares heretofore issued and subsequently purchased for cancellation by the company. At the same time the authorized capital was increased to 50,000 5% cumulative redeemable sinking fund preferred shares of $100 par value each by the creation of an additional 46,709 of the said preferred shares. The 50,000 preferred shares were reclassified as preferred shares of the par value of $100 each, issuable in series of which the issued 3,291 shares were designated as 5% cumulative redeemable sinking fund preferred shares Series "A" and of which 10,000 of the unissued preferred shares were designated as 6% cumulative, redeemable convertible preferred shares Series "B". The 10,000 preferred shares Series "B" were issued for cash $1,000,000.
   The preferred shares Series "A" are redeemable at $101 plus accrued and unpaid dividends. The company is required to provide $15,000 (or less in certain circumstances) annually for the redemption of preferred shares which provision was fulfilled for the current year.
   The preferred shares Series "B" may be redeemed at a premium of 6% up to May 15, 1970, the premium reducing thereafter in varying amounts to 1% on May 15, 1982. Each preferred share Series "B" shall be convertible at anytime on or prior to the close of business on May 15, 1977 (or if called for redemption prior to that date may be converted 3 days prior to redemption) at the conversion rate of 4 common shares for each preferred share Series "B" tendered for conversion.
   Common shares authorized 200,000 shares; issued 80,000 shares.
   40,000 common shares have been reserved for conversion of preferred shares Series "B" and 8,000 common shares have been reserved for issuance on the exercise of Series "A" warrants issued with the 6¼% sinking fund debentures Series A. These warrants entitle the holders thereof to purchase an aggregate of 8,000 common shares up to and including July 2, 1972 at prices varying from $30 to $35 per share depending on date of purchase.

9. The Trust Deeds securing the funded debt contain restrictions on the payment of dividends if certain conditions are not met.

10. Assets and liabilities originating in foreign currencies have been translated on the following bases: current items at the rate of exchange in effect at March 24, 1968; other items at the rates in effect at the dates the transactions were completed.

11. Contingent liabilities:
    As guarantor of bank loans of a supplier $37,000 U.S. (secured by raw cotton warehouse receipts in the Southern United States) and others $112,892.
    For notes receivable discounted with recourse, $254,903.
    Letters of credit, $14,649.
    A non-consolidated subsidiary has filed a notice of objection in respect of 1968 federal income tax assessments aggregating approximately $51,500 for the 1966 fiscal year. The company is of the opinion that the assessments are without merit and accordingly no provision has been made in the accounts for these claims.

Consolidated Statement of Source and Application of Funds

Year Ended March 24, 1968
With Comparative Figures For 1967

	1968	1967
Funds provided:		
From operations:		
Net income	$ 291,354	745,986
Non-cash items entering into net income:		
Add:		
Depreciation	483,522	591,059
Decrease in deferred development and other charges (net)	34,190	—
Loss on sale of fixed assets	—	96,659
Loss on sale of shares of a former subsidiary	—	1,685
	809,066	1,435,389
Deduct:		
Transfer of deferred gain on sale of fixed assets	79,273	282,228
Increase in equity in subsidiary and other investments	195,455	78,367
Decrease in deferred taxes	137,500	—
Gain on sale of investment	—	73,320
Reduction of deferred finance charges	15,940	12,266
Gain on sale of fixed assets	28,556	—
	456,724	446,181
Funds provided from operations	352,342	989,208
Proceeds from issue of preferred shares	1,000,000	—
Proceeds from sale of fixed assets	205,280	42,879
Decrease in investments and advances	411,943	—
Income tax adjustment credited to earned surplus	—	35,408
Proceeds on sale of other investment	—	154,531
Decrease in conditional sales contracts receivable	—	89,196
Increase in conditional sales contracts payable	—	59,546
Decrease in mortgages and accounts receivable	—	8,114
Decrease in excess of cost of investment in consolidated subsidiaries over the equity therein	—	2,915
Total funds provided	1,969,565	1,381,797
Used as follows:		
Purchase of fixed assets	188,103	380,480
Increase in mortgages receivable	46,811	80,980
Special refundable tax paid	2,160	10,525
Increase in deferred charges, net	—	9,736
Decrease in conditional sales contracts payable	136,587	—
Reduction of funded debt	150,000	150,000
Reduction in notes payable	457,764	38,557
Dividends paid	172,455	112,455
	1,153,880	782,733
Increase in working capital	815,685	599,064
Working capital at beginning of year	2,445,385	1,846,321
Working capital at end of year	$ 3,261,070	2,445,385